

September 1, 2006

Kevin McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, FL 32399

Dear Commissioner McCarty,

Enclosed is a copy of the report on the state of Florida's health insurance market as required by Section 627.6699(11)(o)5, F.S. It is presented by the Florida Health Reinsurance Program (FHRP) as fulfillment of its requirement to "issue a report to the office on the state of the health insurance market in Florida by September 1 each year." This report was reviewed and approved by FHRP at a meeting on August 24, 2006. FHRP hopes this report will be useful to the office and others as they seek to improve Florida's health insurance market.

FHRP continues to meet so it may carryout its other responsibilities of "making recommendations to the office for legislation addressing health insurance market issues" and of providing "comments on health insurance legislation proposed by the office."

If you have any question or comments concerning this report, please don't hesitate to contact me. FHRP looks forward to working with you, your staff and other stakeholders to improve Florida's health insurance market.

Sincerely,

James J. Bracher
Executive Director

Enclosure

cc: Rich Robleto, Chairman, Board of Directors
Board of Directors

**REPORT ON FLORIDA'S
HEALTH INSURANCE MARKET**

BY THE

FLORIDA HEALTH REINSURANCE PROGRAM

September 1, 2006

Introduction

The Florida Health Reinsurance Program is charged with advising the Office of Insurance Regulation, the Agency for Health Care Administration, the Department of Financial Services, other executive departments and the Legislature on health insurance issues [see Section 627.6699(11)(o), F.S.]. As a part of that responsibility, it is required to issue a report on the state of the health insurance market in Florida. The first report was issued in December 2005. That report provided background information on the Florida Health Reinsurance Program and summarized the amendments to the authorizing statute made in 2005. It also included four years of enrollment and premium data for Florida's commercial health insurance market. This is the second report issued by the Florida Health Reinsurance Program. It includes enrollment and premium data for 2005 and provides additional statistical information of Florida's insurance markets.

Background

The Florida Small Employer Health Reinsurance Program began in 1992 as one of the components of small group health insurance reform in Florida. The statutes were amended in 1997 to establish the Florida Individual Health Reinsurance Program. Both programs are governed by the same Board of Directors and operate as the Florida Health Reinsurance Program (the Program).

The Program was also changed by legislation passed during the 2005 legislative session. The composition of the board was changed to decrease the number of insurance company representatives and to add representatives of the business community and others. The new board was appointed earlier this year. A listing of current board members is attached.

The responsibilities of the Program were also changed. It is now charged with advising the Office of Insurance Regulation, the Agency for Health Care Administration, the Department of Financial Services, other executive departments and the Legislature on health insurance issues.

One of the Program's new responsibilities is to make recommendations to the Office of Insurance Regulation for legislation addressing health insurance market issues. To enable it to fulfill that responsibility, the Program is currently gathering information on Florida's health insurance markets. It is also hearing presentations from existing programs, both public and private, that have been established to assist in making health insurance coverage more available and more affordable for Floridians. The Program is also securing public comment on the health insurance market.

At the conclusion of this process later this year, the Program will issue its recommendations to the Office of Insurance Regulation.

Statistics on Florida's Commercial Health Insurance Markets

The following is a brief recitation of changes in enrollment and premiums in Florida's commercial health insurance markets for the period 2001 through 2005.

Enrollment

During the period from 2001 through 2005, enrollment in Florida's commercial health insurance markets decreased from 5,148,105 to 4,245,537, a decline of 17.5%.

Enrollment by market is as follows:

Enrollment in Florida's Commercial Health Insurance Markets

	Covered Lives				
	2001	2002	2003	2004	2005
Instate Individual Guarantee Issue	7,439	12,673	11,594	10,310	29,202
Instate Individual Underwritten	431,289	419,191	447,150	482,618	424,774
Total Instate Individual	438,728	431,864	458,744	492,928	453,976
Conversion	14,644	23,473	31,712	28,150	26,104
Instate Groups of One	89,236	59,650	23,236	39,119	31,613
Instate 2-50 Member Groups	1,150,063	991,762	968,631	994,547	1,028,949
Total Instate 1-50 Member Groups	1,239,389	1,051,412	991,867	1,033,666	1,060,562
Instate 51+ Member Groups	3,038,429	2,817,372	2,808,605	2,426,634	2,233,435
Out-of-state Guarantee Issue	2,726	1,160	1,062	1,236	1,482
Out-of-state Individually Underwritten	155,340	206,921	196,313	195,938	223,236
Total Out-of-state Individual	158,066	208,081	197,375	197,174	224,718
Out-of-state Groups of One	3,876	4,207	2,264	1,648	1,155
Out-of-state- 2-50 Member Groups	28,275	48,395	26,053	14,451	10,966
Total Out-of-state 1-50 Member Groups	32,151	52,602	28,317	16,099	12,121
Out-of-state 51+ Member Groups	226,698	249,517	212,303	215,703	234,621
Total All Commercial Insured	5,148,105	4,834,321	4,728,923	4,410,354	4,245,537

The decline in enrollment was driven by a decrease of 800,000 covered lives, or 26.5% in the 51+ member instate group market (large group) and of 180,000 covered lives, or 14.4% in the 1-50 member instate group market (small group). The declines in the instate group market were somewhat offset by increases in the individual markets, especially the out-of-state individual market where enrollment increased by almost 67,000 or 42%.

It is important to note that enrollment in the small group instate market has begun to rebound since it bottomed out in 2003 when enrollment declined to 991,867 covered lives. Enrollment in 2005 totaled 1,060,562 covered lives.

Premiums

During this same period premium dollars totaled:

Premium Dollars in Florida's Commercial Health Insurance Market

	Premiums				
	2001	2002	2003	2004	2005
Instate Individual Guarantee Issue	15,740,423	12,851,314	12,951,899	48,445,137	81,286,431
Instate Individual Underwritten	654,490,599	691,569,288	743,356,152	828,279,051	962,816,696
Total Instate Individual	670,231,022	704,420,602	756,308,051	876,724,188	1,044,103,127
Conversion	36,345,337	59,134,324	122,330,067	115,961,444	130,609,710
Instate Groups of One	268,738,002	192,010,015	119,237,654	167,245,168	163,826,093
Instate 2-50 Member Groups	2,738,261,615	2,674,966,413	2,944,493,581	3,148,232,145	3,562,528,350
Total Instate 1-50 Member Groups	3,006,999,617	2,866,976,428	3,063,731,235	3,315,477,313	3,726,354,443
Instate 51+ Member Groups	6,031,328,343	6,601,359,748	7,401,537,475	8,161,459,254	8,482,142,528
Out-of-state Guarantee Issue	7,497,385	6,547,837	8,144,268	10,136,853	12,295,544
Out-of-state Individually Underwritten	239,265,455	315,883,933	394,648,980	428,042,783	481,718,925
Total Out-of-State Individual	246,762,840	322,431,770	402,793,248	438,179,636	494,014,469
Out-of-state Groups of One	9,990,527	13,934,146	10,021,808	7,508,735	5,820,464
Out-of-state 2-50 Member Groups	46,571,175	128,818,101	120,087,311	81,533,772	49,823,238
Total Out-of-state 1-50 Member Groups	56,561,702	142,752,247	130,109,119	89,042,507	55,643,702
Out-of-state 51+ Member Groups	94,999,943	540,802,698	554,388,060	609,153,631	737,092,634
Total All Commercial Insured	10,143,228,804	11,237,877,817	12,431,197,255	13,605,997,973	14,669,960,613

Premium dollars increased in all markets. Total premium dollars increased \$4,526,731,809 or 44.6% over the five-year period.

Insurance Coverage in Florida

The decline in the number of persons in Florida covered by health insurance has been documented in other studies. For example, the Florida Health Insurance Study 2004 showed that the percent of Florida's under 65 population without any health insurance coverage increased from 16.8% in 1999 to 19.2% in 2004. This represents an increase of over 625,000 persons. When these data are analyzed by payor, some interesting trends emerge.

	<u>1999</u>	<u>2004</u>
Florida Population (1)	15,680,103	17,613,108
Under 65 population (1)	12,896,036	14,542,554
Under 65 estimated % uninsured (2)	16.80%	19.20%
Number under 65 uninsured	2,166,534	2,792,170
Number under 65 insured	10,729,502	11,750,384
<u>Under 65 insurance coverage by payor (2)</u>		
Medicaid, Medikids & other similar programs	1,328,291	2,268,638
Military, Champus, VA	580,322	698,043
Employment/Individual insurance	9,246,458	9,538,686
Commercially insured coverage (calendar 2000 and 2004)(3)	5,140,693	4,410,354
% commercially insured coverage	55.60%	46.24%

(1) Office of Economic and Demographic Research, Florida Legislature

(2) Florida Health Insurance Study 2004

(3) Florida Office of Insurance Regulation

Note: Numbers of persons with insurance exceeds 100% because some persons report more than one type of coverage.

First, while the percent of the under 65 population who were uninsured increased during this period (from 16.8% to 19.2%), the actual number of persons with some type of insurance coverage increased. From 1999 to 2004 the estimated number of persons with some type of health insurance coverage increased from 10,730,000 to 11,750,000. That increase was driven by significant increases in persons who received coverage under one or more public insurance programs such as Medicaid, Medikids, etc.

Second, while the number of persons covered by employment or individual health insurance increased slightly (3.2%), the number of persons getting that coverage in Florida commercial insurance market decreased by 730,000, or 14.2%. That decrease has occurred in the instate group market with the most significant decrease in the instate large group market. By the end of 2004 the percent of persons getting coverage in the commercially insured health insurance market had declined to 46.24% of all persons covered by employment or individual health insurance. It is clear that the large group (51+ member groups) is becoming largely a self-insured market.

Florida Businesses by Number of Employees

Another significant factor driving Florida's large uninsured population is the composition of Florida's businesses. Studies have repeatedly shown that the smaller the business as measured by number of employees, the less likely that the business will offer health insurance. This finding was reconfirmed by the Florida Health Insurance Study 2004 that found the following:

Uninsured by Firm Size

Firm Size	Percent of Employees Without Health Insurance
1-4	36.3
5-9	35.2
10-24	31.8
25-49	22.7
50-99	16.0
100-249	14.0
250-499	10.1
500-999	6.4
1,000 or more	5.2

Florida's business community consists largely of small businesses. Data from the Florida Agency for Workforce Innovation shows the following numbers of Florida businesses by number of employees:

STATE OF FLORIDA
EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT COMPENSATION
FOURTH QUARTER, 2005 SIZE OF FIRM
ALL OWNERSHIPS

SIZE CODE	EMPLOYMENT RANGE	REPORTING UNITS		EMPLOYMENT	
		NUMBER	TOTAL %	NUMBER	TOTAL %
0	0	79,010	13.9	0	0.0
1	1-4	288,824	50.8	551,363	6.9
2	5-9	87,290	15.3	575,604	7.2
3	10-19	52,826	9.3	714,799	8.9
4	20-49	36,117	6.3	1,094,699	13.7
5	50-99	13,055	2.3	899,402	11.2
6	100-249	8,183	1.4	1,230,374	15.4
7	250-499	2,111	0.4	720,068	9.0
8	500-999	863	0.2	587,134	7.3
9	1,000 PLUS	514	0.1	1,627,359	20.3
TOTALS:		568,793	100.0	8,000,802	99.9

Note: a reporting unit is the economic unit for which data is submitted on the employer's contribution report or on a multiple worksite report. Employment for a given month is the number of covered workers who earned wages during the pay period which included the 12th of the month. Size of firm data are always based on third month employment.

SOURCE: AGENCY FOR WORKFORCE INNOVATION, LABOR MARKET STATISTICS, QUARTERLY CENSUS OF EMPLOYMENT AND WAGES PROGRAM.

New Market Entrants

Despite the decline in enrollment in Florida's commercial health insurance market, the market shows signs of revitalization as new insurers enter the market and existing insurers expand their market offerings. During the past 18 months, three insurers have entered one or more markets. New entrants include Avalon Healthcare, Inc. and Medica Health Plan, both of whom have filed to sell instate individual, small group and large group health insurance. Aetna Health, already in the instate group health insurance market, has filed to sell individual health insurance in Florida

Summary

The Program is pleased to present this report on Florida's commercial health insurance market. It plans to use the data presented in this report to assist it in carrying out its responsibilities of “making recommendations to the office for legislation addressing health insurance market issues” and of providing “comments on health insurance legislation proposed by the Office”.

The Program hopes this report will be useful to others as they seek to improve Florida's commercial health insurance market.